

Chalice Brands Ltd. Open Letter to Shareholders

PORTLAND, Ore., Aug. 23, 2022 -- Chalice Brands Ltd. (CSE: CHAL) (OTCQB: CHALF) (the “**Company**” or “**Chalice Brands**”), a premier consumer-driven cannabis company specializing in retail, production, processing, wholesale, and distribution, announced today that it has issued the following open letter to shareholders from the Chalice Brands leadership team. Please see the contents of the letter below.

To our valued shareholders:

On behalf of everyone at Chalice Brands Ltd., we would first and foremost like to express gratitude to all our shareholders for their continued support of Chalice Brands. As we have written in the past, a key part of our engagement efforts is to provide as much transparency as we can to shareholders. We acknowledge that it has been difficult to communicate over the past several months and the current situation is not ideal. Today, we'd like to take a few moments to offer insights into our organizational health, emphasize the path forward, and align our commitment to the people, shareholders, and the communities we serve. Chalice Brands has come a long way since our rebranding and remains focused on the mission towards building a strong west coast U.S. cannabis company.

The current leadership team at Chalice Brands joined the Company at various stages, while sharing a common excitement to be part of an industry that had the potential to make a significant impact in the quality of people's lives. Over the past decade, we have witnessed state-after-state legalize cannabis use – medical use in 39 states and the District of Columbia, and recreational or adult-use in 19 states and the District of Columbia. According to a survey of U.S. adults conducted September 2019 on Pew Research Center's [American Trends Panel](#), 91% of U.S. adults overwhelmingly agree that cannabis should be legal for recreational or medical use. The Chalice Brands leadership team alongside the Board of Directors (the “Board”) have been both financial and vocal supporters of those in a commanding position that can effectuate positive change. While we are frustrated at the lack of progress at the federal level for reform, we remain optimistic that it's not a question of if, but when.

Unlike many other industries that experienced volatility in their marketplace over the past two years, as a consequence of the pandemic, the cannabis industry flourished. Due to the work from home requirements, legal cannabis being declared as essential medicine during state shutdowns, along with many relief programs; a boon was created – especially in Oregon. Based on data from the Oregon Liquor and Cannabis Commission (OLCC), cannabis sales in Oregon rose from \$795 million in 2019 to \$1.11 billion in 2020, and a peak of \$1.18 billion in 2021 – nearly an increase of 50% in two years. As the pandemic subsided towards the end of 2021 and people's lives returned to normalcy, it has become clear that maintaining the level of growth our industry experienced was not sustainable.

Unfortunately, the cannabis industry was confronted with global macroeconomic issues that shape the decline in demand such as rising inflation, surging gas prices, higher interest rates, increased cost of living, and downward consumer trends. Oregon's marketplace has been further exacerbated by repetitive theft, increased overhead, and excessive competition. According to OLCC data, Oregon adult-use cannabis sales sold \$319.7 million in products through the first four months of the year, a decrease of 14.4% from the \$373.7 million sold during the same time period last year. Furthermore, Portland flower sales peaked in June 2021 recording \$21 million, while June 2022 flower sales tallied \$11.5 million – a decline of almost 50% year-over-year. Some of this decline is due to falling average retail prices (ARPs) reported by BDSA Q1 Cannabis Market Overview, with the equivalent ARP in Q1 2022 falling 5% from Q4 2021 and remaining almost flat from Q1 2022 across Oregon, California, Nevada and Oregon markets. Declines in unit sales resulting from the fading pandemic work-from-home lifestyle, escalating macroeconomic factors, and state-specific challenges underscores the vulnerability of operating a cannabis business and the ongoing headwinds facing the industry. In a period of increasing uncertainties, Chalice Brands remains committed to operate efficiently and preserve the long-term growth expectations for the Company.

Despite these ongoing challenges, Chalice Brands is navigating and staying the course as we pursue our product-focused business strategy driven by our recognized brands, passionate people, and the communities we serve. Today, we are proud to own 16 and operate 2 retail locations in Oregon with notable value through vertical integration at every step of the complete seed-to-sale process. We strongly believe Chalice Brands stands out in today's increasingly competitive market and continues to be a true leader in Oregon's cannabis industry.

We would like to take a moment to highlight some of the accomplishments Chalice Brands achieved in the past six months:

- The Company signed an amending agreement to acquire four retail stores branded Cannabliss & Co. from Acreage Holdings, Inc., further increasing our footprint in Oregon. The amendment allowed us to extend the term on the debt to better match cashflows from Cannabliss.
- We accomplished the rebranding of all but one retail store under the Chalice Farms brand, which better reflects the brand recognition we've built in Oregon.
- We launched our newest product line - Private Stash – the most successful product introduction for Chalice Brands to date. The new line boasts a portfolio of more than 30 products, featuring strain-specific cartridges, flavored edibles, tinctures and distillate cartridges, as well as a variety of hand-crafted, small batch pre-rolls in a selection of classic strains.
- We achieved full integration of all products lines into Chalice Brands owned and operated retail stores, including

Cannabliss & Co., and reached an all-time high share of first party product – driven by the success of flower sales and the launch of Private Stash lines.

- We made tremendous improvements in respect to business payroll, retail store staffing, and operational reductions to operate more efficiently.
- Based on preliminary unaudited results, Chalice Brands Dispensary Revenue^[1] for the first quarter of 2022 was \$5.3 million, representing a 45.1% increase compared to the same period in the prior year. The increase was the result of the Homegrown Oregon acquisition on May 19, 2021. Dispensary revenue for the second quarter 2022 was \$5.2 million, representing a 1.4% increase compared to the same period in the prior year. Similar to the first quarter comparison, the dispensary revenue increase is largely attributable to the Homegrown Oregon acquisition. Dispensary revenue for the first six months of 2022 was \$10.5 million representing a 19.5% increase compared to the same period in the prior year.

While the foundation of our growth strategy and success has been predicated on the operating philosophy of “crawl, walk, run,” we acknowledge that best-in-class companies must prove to be adaptable in times of uncertainty. This year has been very difficult to operate stemming from the inability for us to access capital to support our growth trajectory. Even though the Company has made evident progress, the insufficient capital markets have continued to challenge our working capital. We will maintain our pursuit of constant margin improvements despite the lack of access to capital in order to remain competitive in the marketplace. We intend to take additional steps to improve our accountability now and in the future. With the interest of our shareholders in mind, we would like to address how our team is deliberately reacting in these tough market conditions.

To meet current economic challenges, we’ve worked aggressively this year to reduce costs. Since Q1 2022, the Company has reduced gross wages and salaries by 30% to ensure our unit economics are sustainable the short and long-term. In parallel, we have continued to improve our margins through product mix, and the way we are buying product – through both first-party and third-party margins. Additionally, we have maintained an incredible relationship with our strategic partners, led by Chief Operating Officer Meghan Miller, who are critically important in our industry and for the success of Chalice Brands. Despite market conditions, we remain confident in the decisions we made to focus our operational footprint and strengthen our vertical capabilities.

As previously announced, the Company changed its auditor to M&K CPAS, PLLC (“Successor Auditor”) from Baker Tilly US, LLP (“Former Auditor”). We understand our delay in issuing audited financial statements is causing concern and frustration with our shareholders and stakeholders. There are internal and external factors that have contributed to the delay, but those factors did not include accounting disputes or reportable events between the Company and our former auditor. The decision to change audit firms was based on the belief that the Successor Auditor had the immediate resources available to complete audit work for the year ending 2021 and move quickly through supporting the issuance of Q1 and Q2 unaudited financial statements. The Company is highly encouraged with our progress with the Successor Auditor to date and expects to issue audited financial statements for the year ended December 31, 2021, by the end of September.

The Chalice Brands leadership team is incredibly appreciative of the tremendous support of our Board members. We want our shareholders to know that the Board is actively engaged in oversight of the Company’s initiatives. The level of adherence from the Board is demonstrated by a commitment to weekly meetings to review progress in the audit and business operations, as well as additional meetings with the chair of the Board twice weekly. Above all, the Board members and the Chief Executive Officer, Jeff Yapp, are operating with no compensation and will continue to do so for the foreseeable future. Chalice Brands senior management team will continue to work closely with the Board to ensure accountability and transparency for shareholders.

While we strongly believe providing consumers with the highest quality in product, value, and experience are at the core of our success, we understand our role is to deliver the best possible outcome for our shareholders and employees. Our team will continue to be vigilant in this environment and stay grounded in our core values.

On behalf of the entire Chalice Brands leadership team, we would like to again thank you for your continued support. In closing, we remain confident that we have the talent, expertise, and strategic approach necessary to build upon our foundation.

Sincerely,

The Chalice Brands Ltd. Leadership Team

The Company’s consolidated financial statements for the three months ended March 31, 2022, and six months ended June 30, 2022, are not yet available. These estimates are based on information currently available to management. Actual revenues are not expected to vary materially from the estimated preliminary revenues included herein. The estimates included in this release have been prepared by, and are the responsibility of, management. The auditors have not completed a review, compilation or the performance of its procedures on interim financial statements with respect to the estimates and does not express an opinion or any other form of assurance with respect thereto. Such estimates are subject to revision until the release of the consolidated financial statements for the three months ended March 31, 2022, and six months ended June 30, 2022.

About Chalice Brands Ltd.

Chalice Brands is a premier consumer-driven cannabis company specializing in production, processing, wholesale, distribution and retail, with 16 owned and 2 managed dispensaries in and around Portland, Oregon. The Company is committed to developing a dynamic portfolio built around the recognized brands of Chalice Brands, including Chalice Farms, Left Coast Connection, Homegrown Oregon and Cannabliss & Co., with a focus on health and wellness. Visit investors.chalicebrandsltd.com/ for regular updates.

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Supplementary Financial Measures

Chalice Brands Ltd. is providing in this press release financial information that is not or will not be directly disclosed in its financial statement prepared in accordance with generally accepted accounting principles applicable to public companies in Canada ("GAAP").

Chalice Brands Ltd. defines Dispensary Revenue a supplemental financial measure as the amount received from the sale of cannabis at retail dispensaries owned and operated by the Company. Dispensary Revenue, as presented, is GAAP revenue excluding revenue from wholesale or third-party processing operations. Dispensary Revenue may not be comparable to similarly titled measures employed by other companies. Since Dispensary Revenue is not a measure of performance calculated in accordance with IFRS, it should not be considered in isolation of, or as a substitute for, measures of performance prepared in accordance with IFRS. Dispensary Revenue may not be comparable to similarly titled measures employed by other companies.

Neither the Canadian Securities Exchange nor its Regulation Services Provider (as that term is defined in the policies of the Exchange) accepts responsibility for the adequacy or accuracy of this release.

Disclaimer: This press release contains "forward-looking information" within the meaning of applicable securities legislation. Forward-looking information includes, but is not limited to, statements with respect to the Company's future business operations, the opinions or beliefs of management and future business goals. Generally, forward looking information can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved". Forward-looking information is subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company to be materially different from those expressed or implied by such forward-looking information. These risks include but are not limited to general business, economic and competitive uncertainties, regulatory risks, market risks, risks inherent in manufacturing and retail operations such as unforeseen costs and production shutdowns, difficulties in maintaining brand loyalty, and other risks of the cannabis industry. Although the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward looking information. Forward-looking information is provided herein for the purpose of presenting information about management's current expectations relating to the future and readers are cautioned that such information may not be appropriate for other purpose. The Company does not undertake to update any forward-looking information, except in accordance with applicable securities laws. This press release does not constitute an offer of securities for sale in the United States, and such securities may not be offered or sold in the United States absent registration or an exemption from registration or an exemption from registration.

^[1] See "Supplementary Financial Measures"